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KOHL'S VISIT TO CHEQUERS, 9 JULY : THE FRG SCENE

#### SUMMARY

1. KOHL'S RECENT INTERNATIONAL SUCCESSES, ESPECIALLY AT HANOVER, NOT MATCHED ON THE DOMESTIC FRONT. THE 1990 TAX REFORM PACKAGE HAS SCRAPED THROUGH THE BUNDESTAG. DISCUSSION OF THE DRAFT BUDGET FOR 1989 IS ALSO CAUSING STRAINS IN THE COALITION. IN THE CDU, KOHL FACES SOME DISCONTENT WITH HIS LEADERSHIP. BUT NO ACTIVE THREAT TO HIS POSITION.

#### DETAIL

2. KOHL'S RECENT SUCCESSES IN THE INTERNATIONAL ARENA, ESPECIALLY AT HANOVER, HAVE NOT BEEN MATCHED ON THE DOMESTIC FRONT. THOUGH THE PARLIAMENTARY RECESS HAS FORMALLY BEGUN, LEADING POLITICIANS HAVE REMAINED IN BONN ARGUING OVER MEDIUM TERM FISCAL POLICY. THE MAIN ISSUES ARE PROPOSALS FOR INCREASED CONSUMER TAXES NEXT YEAR, MEASURES TO BAIL OUT THE CREAKING UNEMPLOYMENT INSURANCE FUND AND, MOST URGENTLY, THE 1990 TAX REFORM PACKAGE, WHICH GETS ITS FINAL READING IN THE BUNDESRAT ON 8 JULY. AS REPORTED IN MY TELNO 675, PARLIAMENTARY APPROVAL FOR THE PACKAGE HAS BEEN ON A KNIFE-EDGE. BUNDESTAG AGREEMENT WAS ONLY JUST SECURED, IN THE TEETH OF OPEN DISSENT BY BACKBENCHERS ANGERED BY THE EFFORTS OF STRAUSS TO FORCE THROUGH TAX PRIVILEGES FOR PRIVATE PILOTS. ONLY HEROIC EFFORTS BY COALITION WHIPS TURNED OPPOSITION INTO ABSTENTION, AND THE PACKAGE SCRAPED THROUGH. TO THE EMBARRASSMENT OF ALL, THE MEASURE ON PRIVATE PILOTS IS NOW IN THE PROCESS OF BEING DROPPED, LEAVING STRAUSS LOOKING WEAKER AND THE COALITION INCOMPETANT AND INDECISIVE.

3. AS IF ONE BRUISING WAS NOT ENOUGH ALBRECHT, THE CDU MINISTER-PRESIDENT OF LOWER SAXONY, TIED HIS CRUCIAL SUPPORT FOR THE PACKAGE IN FRIDAY'S BUNDESRAT DEBATE TO FEDERAL FINANCIAL ASSISTANCE FOR NORTHERN LAENDER TO EASE THE SOCIAL SECURITY BURDENS IMPOSED BY



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HIGH UNEMPLOYMENT. HIS BRINKMANSHIP PAID DIVIDENDS. AFTER FRANTIC COALITION NEGOTIATIONS THE GOVERNMENT AGREED TO SET UP A STRUCTURAL AID FUND OF PROBABLY AROUND DM2.5 BILLION, THOUGH DETAILS ARE STILL UNCLEAR. IN RETURN, ALBRECHT HAS PLEDGED ALLEGIANCE IN THE BUNDESRAT ON 8 JULY.

4. THE DRAFT BUDGET FOR 1989 IS ALSO DUE TO BE MADE PUBLIC ON 8 JULY. IN PREPARATION, THE COALITION HAVE BEEN MAKING LAST MINUTE ADJUSTMENTS TO CONSUMER TAX INCREASES TO STEM THE TIDE OF RISING PUBLIC BORROWING. PROPOSALS FOR LARGE TAX RISES ON PETROL, HEATING OIL, TOBACCO AND INSURANCE PREMIUMS, ACCOMPANIED BY INCREASES IN UNEMPLOYMENT INSURANCE CONTRIBUTIONS, HAVE BEEN SUPPLEMENTED BY ONE FOR A NEW TAX ON NATURAL GAS. THE CHORUS OF CRITICISM AGAINST THESE PROPOSALS HAS MADE EVERYONE FORGET THE BENEFITS OF TAX CUTS IMPLEMENTED IN JANUARY THIS YEAR AND THOSE IN PROSPECT FOR 1990. (THE NET EFFECT BY 1990 OF CURRENT PROPOSALS FOR TAX INCREASES, TAKEN TOGETHER WITH TAX CUTS, WILL STILL BE TO LEAVE MOST PEOPLE BETTER OFF.) BUT AS AN EXERCISE IN PRESENTATION THE GOVERNMENT HAVE AGAIN MADE A POOR FIST OF FISCAL POLICY. THEIR PIECEMEAL APPROACH MAY HAVE BEEN FORCED ON THEM BY EXTRA PUBLIC FINANCING PROBLEMS. THIS WILL BECOME CLEARER ON PUBLICATION OF THE DRAFT BUDGET AND ITS ACCOMPANYING FIVE-YEAR FINANCIAL PLAN ON 8 JULY. BUT THE UPSHOT, AS MATTERS STAND, HAS BEEN TO LEAVE THE COALITION LOOKING DIVIDED AND WITHOUT CLEAR OBJECTIVES.

5. KOHL'S OWN PARTY MEANWHILE HAS BEEN AFFLICTED BY INTERNAL SQUABBLES. THE ROW OVER THE FUEL TAX ON PRIVATE PILOTS HAS SERVED AS A NEW FOCUS FOR THE GRASSROOTS CRITICISM WITH WHICH KOHL WAS CONFRONTED AT THE CDU PARTY CONFERENCE IN MID-JUNE. ON THAT OCCASION HE FOUGHT IT OFF WELL, BUT UNDERLYING DISCONTENT REMAINS. ACCUSATIONS OF CLUMSY MANAGEMENT HAVE PROLIFERATED SINCE. SO HAVE GRASSROOTS RESIGNATIONS FROM THE PARTY. A RECENT OPINION POLL HAD THE CDU FALLING BEHIND THE SPD FOR THE FIRST TIME SINCE 1973. MEANWHILE THE BONN PUBLIC PROSECUTOR IS CONSIDERING THE GREENS' CHARGE THAT KOHL GAVE FALSE TESTIMONY TO THE BUNDESTAG COMMITTEE INVESTIGATING THE ILLEGAL EXPORT OF SUBMARINE BLUEPRINTS TO SOUTH AFRICA (MY TELNO 669).

6. THE DISARRAY IN KOHL'S COALITION IS THUS CONSIDERABLE. BUT THE GOVERNMENT ALWAYS EXPECTED 1988 TO BE A DIFFICULT YEAR, WITH MAJOR DECISIONS ON SOCIAL SECURITY AS WELL AS FISCAL POLICY TO BE TAKEN. KOHL REMAINS HIS JOVIAL SELF, DECLARING THAT THE COALITION CARAVAN WILL MOVE ON DESPITE THE YAPPING FROM ITS DETRACTORS. THERE IS NO SIGN THAT HE IS IN REAL DANGER. THE ODDS AGAINST A CHANGE OF POWER



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AT THE NEXT FEDERAL ELECTIONS IN 1990 MAY HAVE SHORTENED: THAT IS A  
LONG WAY OFF, AND THE BEST BET IS STILL THAT THE PRESENT COALITION  
WOULD WIN IF AN ELECTION WERE HELD NOW.

MALLABY

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